

R. J. REYNOLDS TOBACCO COMPANY, INC.
U.S. MILITARY/DUTY FREE
FIELD SALES CORRESPONDENCE

(CONFIDENTIAL)

DATE: November 15, 1995

TO: Region Managers/Military/Duty Free Sales Managers

SUBJECT: Revised Coupon Strategy

As you are undoubtedly aware, the U.S. Military Savings Budget has been increased for the remainder of 1995. Due to several variables, (volume declines, increased competitive discounting, etc.) the Savings Brand Group has allocated additional funding to the U.S. Military BU, and as a result, effective immediately we can return to the Savings Coupon/Discounting Strategy which we implemented during the first eight months of 1995.

As you recall, our Savings Coupon Strategy is primarily a defensive strategy and should be implemented on an account-by-account basis. Please use AIM, SIS and Commissary data to evaluate the impact of competitive activity and respond accordingly. In all DECA accounts where RJR volume is being negatively affected by competitive discounting, you should increase your coupon spending level to \$2.00 per carton coupons. In Exchange accounts, where RJR volume is being negatively affected by competitive discounting, you should use \$1.00 coupons to match competition, as we are continuing to implement the \$1.10 per carton (\$1.60 in NEXCOM) off-invoice discount allowance.

In accounts where Monarch volume is very weak or is not priced in the lowest retail price tier, please do not coupon Monarch and allow the brand to seek it's own volume level. In accounts where Monarch volume is strong or remains priced in the lowest retail price tier with your Regional Manager's approval, you may implement the same strategy as outlined for Doral.

Full Price Brands

In addition, the U.S. Military Coupon Budget for Full Price brands has also been increased for the balance of 1995. The increase is designed to counter the recent increase in PMI/BAT coupon activities. We strongly suspect the possibility PMI will implement \$2.50 per carton coupons on all brands for the next month and BAT has increased the coupon value on Kool to \$4.00 per carton.

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As a reminder, you are asked to not spend the additional funds except to defend RJR's volume/SOM from competitive activity that is negatively affecting our retail position. Again, you should continue to evaluate on a store-by-store basis the impact of competitive coupon activity and respond accordingly. In locations not negatively affected by increased competitive activity, we should not increase our coupon efforts (minimize franchise reward).

Also, please remember from a national perspective, our Full Price volume appears to remain relatively flat despite fluctuations in competitive discounting levels. Therefore, evaluate each situation independently and use your sound business judgment to manage RJR's coupon response.

Again, please ensure all coupons placed are accurately recorded in a timely fashion. All part-time personnel without access to a Hand-Held or Poquet should continue to communicate (phone, fax, mail, etc.) the quantity of coupons placed by account to the sales manager on a weekly basis, and the manager should report the information in SIS prior to the close of the business week. Part-time personnel with access to a Hand-Held or Poquet should report the quantity of coupons placed by account on a daily basis. It is extremely important all coupons placed during a business week are accurately reported by account during the same business week (NLT Friday). Your Region Manager can assist you with implementation of the most effective process to ensure accurate and timely coupon reporting in your respective division. Also, please continue to communicate with each other, as there are some individuals new to the Military business and they may need some help.

Also, to ensure everyone follows the same strategic guidelines, a revised/updated version of the U.S. Military Pricing/Discounting/Coupon Strategy for each class of trade has been attached and should be maintained in your possession as an ongoing point of reference. Would each sales manager please ensure our revised coupon strategy is communicated to all part-time employees and please ensure everyone has a clear understanding of his/her roles. Also, please stress the importance of confidentiality, and remind our part-time personnel not to discuss our business strategy with customers or competitors.

In addition, the revised U.S. Military Savings Brand strategy will be communicated to all divisions that currently have Military account coverage responsibility from Winston-Salem. Should you have any questions or require additional information regarding the implementation of the revised coupon strategy, please feel free to contact Ralph Gaillard, Richard Beck, Jeff Kies or your Regional Manager.

R.J. Reynolds Tobacco Company/U.S. Military BU

cc: R. Gaillard
R. Beck
J. Kies

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